

OPIM290 – Decision Processes

Fall 2009

This version: 09/27/2009

Updates:

**** 9.27.2009:** Updated schedule to reflect progress in class. **This affects dates in which readings are ‘due’.**

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1. Overview

1.1 Background

Over the last 30 years or so, psychologists and economists have joined forces to study how people process information and *actually* make decisions, rather than how they *would* make decision if they were fully rational and selfish.

This research program has provided an understanding of how people’s decisions deviate from “optimal” ones and the consequences of such deviations. The course is devoted to understanding the nature, causes and implications of these limitations.

1.2 Objectives

The course has two main objectives.

The first is improving the ability of students to, as managers, influence the behavior of others, be it consumers, employees or people outside a business relationship altogether. This is accomplished by expanding the rather limited toolbox that standard economics provides for influencing behavior (namely, incentives and information) with the insights from the aforementioned stream of research.

The second objective is to improve the quality of students’ own managerial decisions, primarily by enhancing their *intuitive* empirical ability. People are poor intuitive statisticians, meaning that when they ‘just think’ about situations for which some data or casual observations exist, they tend to make serious inferential errors, in turn leading to systematically biased decisions. We will study some errors that are particularly important for real world managerial settings and look for easy-to-implement solutions.

1.3 Instruction format

The course is lecture based. It includes a few cases and exercises consisting of simple data analyses. Class discussion is encouraged (but not graded).

1.4 Real world relevance

All content in the course is *applicable* to real-world situations. Because it is based on academic research, however, some of it has *not yet been applied*. This has pros and cons.

On the negative side it means that we, as a class, will sometimes need to speculate as to how a particular finding would be useful in a business setting rather than be able to point to how a particular company implemented a given idea (e.g. going over a 'case').

On the positive side, it means that many of the contents learnt in class are not common knowledge among business professionals or graduates from other institutions.

2. Logistics

2.1 Readings

Two books are required for class: *Nudge*, by Sunstein and Thaler, and *Winning Decisions*, by Russo & Schoemaker. Both are available at the bookstore. They are popular press books rather than textbooks.

Most additional required readings are available in *.pdf* format from webCafé (click on eReader).

Due to copyright restrictions there is also a bulkpack with five readings.

Finally, there are two required podcasts and one webcasts. Links/downloads available from webCafe.

2.2 Grading:

Final grades will be determined by aggregating:

- Two tests (40% each)
- Numerous 'Preparation-Questions' (20% total)

Tests

Tests contain around 10 short-answer questions. Sample tests will be posted on webCafé .

Test #1 – Wednesday October 28th during regular class time.

Test #2 – Wednesday December 9th during regular class time.

There is no final.

Two-sided cheat-sheet written by test-taker herself is allowed (if typed, font \geq 10).

Tests will be computer based. Students should bring laptops on the day of the test.

Preparation Questions

What they are: Questions posted on webCafé before most (but not all) classes.

Why: Preparation questions are intended as a substitute for a participation grade; they incentivize constant class preparation without introducing a personality bias. They also allow grading more students per class in a more cost effective and less subjective manner.

Discussing these questions with friends is ok. **Submitting somebody else's answer without actively participating in its development is considered a violation of the honor code.**

Feedback on content: Students will not usually receive individual feedback on their answers. We will discuss the questions in class, providing general feedback.

Grading: On any given week a random **subset** of all answers will be graded. Preparation questions are intended for students to learn, not for students to be evaluated, that's what tests are for.

3) Lecture Schedule

Note: schedule is subject to change based upon actual progress in class. New versions of the schedule, if any, will be posted on webCafé.

Date	Topic	Readings
Wed, 09-Sep	Introduction	Nudge intro; E1
Mon, 14-Sep	Constructed preferences	E2, W1, {Russo Ch.2&3}
Wed, 16-Sep	Reason based choice 1	
Mon, 21-Sep	Reason based choice 2	
Wed, 23-Sep	Mental Accounting (1)	W2
Mon, 28-Sep	Mental Accounting (2)	E3
Wed, 30-Sep	Risk Aversion 1	E4
Mon, 05-Oct	Risk Aversion 2	E5; B1
Wed, 07-Oct	Intertemporal choice (1): Preference awareness	B2; W3
Mon, 12-Oct	Intertemporal choice (2): Immediate gratification	B3
Wed, 14-Oct	Social norms	E6
Mon, 19-Oct	No Class - Fall Break (290)	
Wed, 21-Oct	Miscellaneous	E6.1
Mon, 26-Oct	Catch-up, Flexible Spending exercise	E7, {Nudge ch. 5 ,9 &11}
Wed, 28-Oct	Test 1	
Mon, 02-Nov	Valuing information	B4
Wed, 04-Nov	Sampling (1) - Defining outcomes	E8; E9
Mon, 09-Nov	Sampling (2) - Selection biases	E10 ; B5
Wed, 11-Nov	Sampling (3) - Self-selection biases	E11
Mon, 16-Nov	Aggregating Information (1)	E12 (read after class)
Wed, 18-Nov	Aggregating information (2)	
Mon, 23-Nov	No Class - (Decision making conference)	
Wed, 25-Nov	No Class - Thanksgiving	
Mon, 30-Nov	Limits to learning (1)	Russo Chp1,8 & 9
Wed, 02-Dec	Limits to learning (2)	E13,E14,E15 (bring to class)
Mon, 07-Dec	Catchup / Test 2 prep	E16
Wed, 09-Dec	Test #2	

- B1 HBS #9-185-017 – “Toro Case”
- B2 Wilson, “Chapter 5: Knowing Why,” Strangers to Ourselves,
- B3 Ariely "The Influence of Arousal" Chapter 5 in *Predictably Irrational*
- B4 HBS #9-191-138. Value of information
- B5 Malcolm Gladwell, “The Trouble with Geniuses, Part 1,” Outliers.

Reading indicators:

(E): in the eReader (webCafe)

(B) : in the bulkpack

(Nudge #): Book chapter #, from *Nudge*, by Sunstein & Thaler.

(Russo #): Book chapter # from *Winning Decision* by Russo Schoemaker.

(W): files available for streaming/downloading from webCafé.